NATIONAL COMMUNITY REINVESTMENT COALITION

NCRC

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April 6, 1999

Donald V. Hammond
Fiscal Assistant Secretary
Office of the Fiscal Assistant Secretary
US Department of Treasury, Room 2112
1500 Pennsylvania Avenue, NW
Washington DC 20220

Dear Mr. Hammond:

On behalf of the National Community Reinvestment Coalition (NCRC), the nation's CRA trade association of more than 690 community reinvestment organizations, I am writing to strongly oppose any involvement of check cashers, pawn shops, and other non-federally insured institutions in the EFT (Electronic Funds Transfer) program. This includes so-called voluntary accounts outside of the ETA (Electronic Transfer Account) option.

As NCRC commented previously, EFT could benefit working class and minority individuals and communities if it encourages a number of "unbanked" individuals to establish accounts with banks or thrifts. These business relationships could lead to more home and small business lending in traditionally underserved communities.

However, if check cashers and other non-federally insured institutions participate in the EFT program, NCRC believes that the "unbanked" population receiving EFT will be pushed further away from mainstream financial institutions. According to the Treasury Department, the existing arrangements between banks and non-depository "payment service providers" require recipients of federal benefits and wages to use the offices of the payment service providers instead of the offices of the banks. These EFT recipients cannot establish relationships with tellers and other bank personnel that may lead to the opening of checking and savings accounts.

The voluntary, non-ETA accounts offered by check cashers and other payment service providers violate the mandate of the Debt Collection Improvement Act of 1996. The Act requires that the Treasury Department ensures that individuals receiving electronic payments have accounts at reasonable cost and with the same consumer protections as other account holders at depository institutions.

Treasury's descriptions of arrangements between banks and check cashers and other payment providers include examples of non-ETA accounts that would not be federally-insured. Therefore, some customers of a particular bank would have federal insurance protection if they had their government checks directly deposited into the bank. Other customers of the same bank, in contrast, would not have FDIC-insurance protection if they receive government payments through a check casher that has an arrangement with the bank. It is very likely that the first customer receiving direct deposit from the bank would be relatively affluent while the second consumer using a check casher would be low- or moderate-income income.

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If Treasury permits fringe banker participation in EFT, many low- and moderate-income members of the "unbanked" population would be subject to usurious interest rates and fees of check cashers and pay day lenders that range from 50 to 500 percent annually[1]. The Treasury Department, in its request for comments, documents that existing arrangements between banks and third party payment providers include a $4 enrollment fee, a $5.50 monthly maintenance fee, and a $1 fee for each withdrawal or balance inquiry. This is more than three times the monthly fee of $3 proposed by Treasury for the basic ETA account to be offered by banks and thrifts.

An EFT system allowing fringe bankers will result in a wealth-drain from underserved communities. The small savings that members of the unbanked population have been able to accumulate will be sucked away by the unsavory practices of pay day lenders, check cashers, and other predatory actors in the fringe banking world. This would eat away at the progress in reinvestment policies stimulated by CRA and the nation's fair lending laws.

Fringe bankers do not need the federal government's help in grabbing market share in minority and working class communities. Several studies have documented that check cashers already dominate in minority neighborhoods. For example, Greg Squires and Sally O' Connor of the University of Wisconsin find that banks outnumber check cashers 15 to 1 in white neighborhoods in Milwaukee. In contrast, there was one bank for every check casher in African-American neighborhoods. Breaking down the data further by income and race reveals even more glaring disparities. The Woodstock Institute found that check cashers outnumber banks by ratios higher than 10 to 1 in lower income, minority communities in Chicago.

The Treasury Department should be employing every policy tool at its disposal to reverse the higher market presence of check cashing outlets. If Treasury provides non-federally insured institutions with access to a captive market of millions of unbanked recipients of federal benefits and wages, the market penetration of check cashers in underserved neighborhoods will truly dwarf that of banks and thrifts. In contrast, if Treasury restricts EFT to federally-insured institutions, banks and thrifts can begin to regain market share in traditionally underserved neighborhoods.

A recent *New York Times* article suggests that banks need to be encouraged to increase their presence in low- and moderate-income communities rather than being permitted to enter into arrangements with check cashers and other payment service providers. The article reports that banks in states with lifeline banking laws have more college students opening up low-cost accounts than lower income customers. Experts are quoted in the article as saying that banks need to step up their marketing efforts to traditionally underserved populations. A Treasury regulation prohibiting check casher and other non-depository institutions from offering the voluntary, non-ETA accounts would indeed encourage banks to increase their marketing to and presence in working class and minority neighborhoods.[2]

Unscrupulous and exploitative practices of pay day lenders, pawn shops, check cashers, subprime lenders, and other non-federally insured institutions have been increasing significantly in the last few years. Restricting EFT access to banks and thrifts would help curb the excesses of fringe bankers by encouraging banks and thrifts to increase their presence in working class and minority neighborhoods. If the Treasury Department wishes to support the reinvestment stimulated by CRA and the fair lending laws, it needs to prohibit non-federally insured institutions from participating in the EFT system.

[1] Heather Timmons, Fast Growing Payday Loan Business: Convenience or Legal Loan Sharking? in American Banker, March 10, 1999. Ted Sickinger, Fringe Banks Eye Low-Income Areas, in the Kansas City Star, March 1, 1999.

[2] Richard A. Oppel Jr., The Stepchildren of Banking: Efforts to Serve Low-Income Areas Appear to Sputter, in the New York Times, March 26, 1999.

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Thank you for considering the views of NCRC's 690 community reinvestment organizations.

Sincerely,

John Taylor

John Taylor
President and CEO

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facsimile transmittal

To:	Gary Sutter or Robert Bezdek	Fax:	202-622-1974/ 202-622-0962/202-622-6413
From:	Arthi Varma	Date:	04/07/99
Re:	EFT '99 Comments	Pages:	4
CC:			

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Notes:

This fax is from the California Reinvestment Committee, 474 Valenica St. San Francisco CA 94103

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